

Decision 82 05 072 **MAY 18 1982**  
BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA EDISON COMPANY for Authorization to Issue, Sell, and Deliver in one or more Series Not to Exceed \$200,000,000 Aggregate Principal Amount of its First and Refunding Mortgage Bonds, Debentures, Notes and/or other Evidences of Indebtedness or, in the alternative, Guarantee Obligations of Another in respect of the Issuance of Securities, to Execute and Deliver one or more Supplemental Indentures, and to Sell Utility Plant; and for an Exemption from the Competitive Bidding Requirements of the California Public Utilities Commission.

Application 82-02-27  
(Filed February 16, 1982)

O P I N I O N

Southern California Edison Company (Edison) requests authority, under Public Utilities (PU) Code Sections 816 through 818, and 851, for the following:

1. To issue, sell, and deliver to the City of Farmington (City), New Mexico, one or more series of its First and Refunding Mortgage Bonds (Bonds), debentures, notes, and/or other evidences of indebtedness (referred to collectively as New Mexico Indebtedness) in an aggregate principal amount of up to \$200,000,000 or, in the alternative, to guarantee unconditionally the City's obligations in respect to its debt;

2. To sell to the City Edison's share of certain acquired or constructed facilities located at the Four Corners Generating Station in New Mexico;
3. To execute and deliver one or more supplemental indentures; and
4. To exempt the issue and sale of the New Mexico Indebtedness from the Commission's competitive bidding requirements.

In this application, Edison sought authorization to engage in a deep discount form of financing if it determined such financing was advantageous. However, by a letter dated May 6, 1982, Edison withdrew its request for such authority because of legislation proposed by the United States Treasury Department. The Treasury Department announced on May 3, 1982 that it was proposing legislation which would eliminate many of the tax benefits of deep discount financing.

Summary of Decision

This decision grants Edison the authority requested in its application, but does not include authority to issue deep discount debt securities.

Notice of the filing of the application appeared on the Commission's Daily Calendar of February 18, 1982. No protests have been received.

Edison, a California corporation, operates as a public utility under the jurisdiction of this Commission. Edison engages primarily in the business of generating, purchasing, transmitting, distributing, and selling electric energy in portions of central and southern California.

For the 12 months ended December 31, 1981, Edison reported it generated total operating revenues of \$4,054,356,000 and net income of \$489,912,000 shown as part of Exhibit A attached to the application.

Edison's Balance Sheet as of December 31, 1981 also shown as part of Exhibit A is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$7,502,458,000
Other Property and Investments -, Net	133,752,000
Current Assets	1,042,762,000
Deferred Debts	<u>49,571,000</u>
Total	\$8,728,543,000
 <u>Liabilities and Equity</u> 	
Common Equity	\$2,968,108,000
Preferred Stock	875,808,000
Long-Term Debt	3,444,080,000
Current Liabilities	1,086,916,000
Reserves and Deferred Credits	<u>353,631,000</u>
Total	\$8,728,543,000

Summary of Past and Proposed Transactions

In Decision (D.) 93319 dated July 22, 1981 in Application (A.) 60652, we authorized Edison to enter into a pollution control financing transaction with the City. Edison, under the authority granted by D.93319, consummated a pollution control financing in order to defray the cost to Edison of facilities for the control of sulfur dioxide pollution at Units 4 and 5 of the Four Corners Generating Station in San Juan County, New Mexico. The financing was structured in the following manner.

On February 4, 1982, the City issued \$176,800,000 principal amount of Pollution Control Revenue Bonds (City's Bonds) to provide funds for the acquisition and construction of the pollution control facilities. As a means of establishing the respective legal obligations of Edison and the City and of satisfying requirements of applicable New Mexico law, an Installment Sales Agreement was entered into between Edison and the City. The Installment Sales Agreement provided that the City's Bonds would be used (by the City) to purchase the existing portion of the pollution control facilities and to construct the remainder of the facilities. Edison conveyed its interest in the facilities to the City under the Installment Sales Agreement. Also under the Installment Sales Agreement, the City reconveyed the facilities to Edison. In payment of the purchase price for the reconveyance of

the facilities, Edison issued to the City \$176,800,000 principal amount of its First and Refunding Mortgage Bonds, Series SSP, Due 1985. The purpose of these transactions is for the City to issue its tax-exempt bonds to obtain funds to pay the cost of the pollution control facilities, and for Edison to issue its indebtedness to the City as security for the payment of the City's Bonds. In summary, the City is raising money at tax-exempt rates and now is loaning it to Edison at the same rates. The City's Bonds were issued with a three-year maturity to take advantage of lower short-term interest rates. Edison and the City presently propose to carry out a refunding transaction to provide moneys to retire the City's Bonds through the issuance of long-term debt. It is anticipated that this refunding transaction will be carried out in essentially the same manner as the original pollution control financing. The City will issue a new series of long-term pollution control revenue bonds (Refunding Bonds). Under a new Installment Sales Agreement, the facilities will be conveyed once again to the City in consideration for the bond proceeds, and then the facilities will again be reconveyed to Edison in consideration for the issuance of Edison's New Mexico Indebtedness to the City. The proceeds of the new Refunding Bonds will be deposited in trust until such time as the original City's Bonds are retired at maturity. At the time of the retirement, Edison's

original Series SSP Bonds will be cancelled. The effect of the one refunding transaction is to substitute the City's new long-term bonds Refunding Bonds for the City's original short-term bonds and to substitute a new series of Edison's New Mexico Indebtedness for the original Series SSP Bonds.

On March 3, 1982, Edison provided the Commission's Revenue Requirements Division with the following description of the Four Corners Pollution Control Facilities consisting of a list of participants in construction of the units and the type of financing used, if known to Edison, as follows:

The addition of pollution control facilities at the Four Corners Generating Station is under rules adopted by the New Mexico Environmental Improvement Board. The rules set forth a December 31, 1984 compliance date.

General Description of the Facilities

The facilities consist of various systems, machinery, and equipment at Units 4 and 5 at the plant which may be generally described as follows:

Sulfur Dioxide Removal System - The sulfur dioxide removal system is designed to remove sulfur dioxide emissions from flue gas. This system includes vertical spray tower absorber modules with mist eliminators, lime slakers and other lime-handling

facilities, a thickening and polymer system, a secondary dewatering and sludge stabilization system, sludge and ash transport facilities, and related mixers, tanks, pipes, pumps, silos, ducts, and structures. The system also includes mechanical, electrical, instrumentation and control systems, and a new stack to permit the operation of the system in accordance with environmental requirements.

Participants in the New Mexico Pollution Control Facilities

<u>Participants</u>	<u>Percent Share Of Facilities</u>	<u>Financing</u>	
		<u>Amount</u>	<u>Terms</u>
		<u>(Millions)</u>	
Edison	48%	\$176.8	3 years
Arizona Public Service	15%	63.0*	3 years
Public Service of New Mexico	13	Not Available	
Salt River Project	10	Not Available	
El Paso Electric	7	Not Available	
Tucson Electric	7	27.0	40 years
Total	100%		

NOTE:(\*) Amount includes facilities at Units 1, 2, and 3 in addition to Units 4 and 5. Facilities costs for other participants reflect Units 4 and 5 only.

Edison is not a participant in Units 1, 2, and 3 as these were built prior to Edison's becoming involved in this construction. Edison is a participant in Units 4 and 5, will own 48% of the plant, and will provide 48% of the pollution control financing.

Edison is informed, believes, and alleges that substantially all of the proceeds from the issuance of the City's Refunding Bonds will be used to refund the City's tax-exempt Pollution Control Bonds. It is expected that the interest payable on Edison's New Mexico Indebtedness will be exempt from all present federal income taxes and state taxes under existing statutes, regulations, court decisions, and rulings.

Since the interest payable on the City's Refunding Bonds is anticipated to be exempt from present federal income taxes, Edison's Bonds will be sold at an annual interest rate substantially less than would be realized if Edison were to issue and sell taxable debt obligations. In order for Edison to take advantage of the favorable interest rates applicable to the City's Refunding Bonds, Edison must issue its New Mexico Indebtedness to the City. The full amount of the interest rate savings will be passed on to Edison and its ratepayers.

Requested Exemption from the Commission's Competitive Bidding Rule

Edison seeks an order of this Commission granting an exemption of the proposed issue and sale of the New Mexico Indebtedness from the Commission's competitive bidding rule established by D.38614 dated January 15, 1946 in Case 4761, as amended by D.49941 and D.75556. These decisions contemplate that



under appropriate circumstances the Commission will not require competitive bidding. Edison believes that the reasons set forth below are compelling and justify the issuance by the Commission of an order granting this exemption.

Because of the statutory structure of pollution control financing mechanisms of the City, competitive bidding for Edison's New Mexico Indebtedness is not possible. The Commission has previously recognized this unique method of financing by issuing decisions exempting pollution-control-related debt issues from the competitive bidding requirements of the Commission, including Edison's D.83022 dated June 25, 1974 in A.54888; D.92412 dated November 18, 1980 in A.59966; D.93319 dated July 22, 1981 in A.60652; and Pacific Gas and Electric Company's (PG&E's) D.92118 dated August 19, 1980 in A.59803. Edison believes that the application of the Commission's competitive bidding requirements would preclude it from taking advantage of the benefits provided by this type of financing and would not be in the best interests of Edison or its ratepayers. Edison anticipates that the New Mexico Indebtedness could be sold at least 200 basis points below that of the normal market.

Given the nature and structure of the New Mexico statutory pollution control financing mechanism and the benefits to be gained from participating in this financing activity, the

Commission's Revenue Requirements Division is of the opinion that Edison must issue and sell the indebtedness to the City. Therefore, the application of the Commission's competitive bidding requirements would not, in this proceeding, be in the best interest of Edison or its ratepayers as it would not operate in a manner to allow Edison's sale of the indebtedness at the most favorable available cost of money. Our position is consistent with D.92118 dated August 19, 1980 in A.59803 (PG&E), relating to pollution control financing by California utilities.

Edison's capital ratios as of December 31, 1981 are shown below as recorded and adjusted to give effect to the transactions that follow:

	<u>December 31, 1981</u>	<u>Pro Forma</u>
Long-Term Debt	48.1%	48.2%
Preferred/Preference Stock	11.8	11.4
Common Equity	<u>40.1</u>	<u>40.4</u>
Total	100.0%	100.0%

1. The proposed issuance of up to \$200,000,000 of pollution control First and Refunding Mortgage Bonds, debentures, notes, and/or other Evidences of New Mexico Indebtedness;
2. The proposed sale of 5,000,000 shares of Common Stock, \$8-1/3 par value, at an assumed price of \$28.00 per share (D.93677 dated November 3, 1981 in A.60926);
3. The issuance and sale of 539,525 shares of Common Stock, \$8-1/3 par value, issued on February 1, 1982 under Edison's Dividend Reinvestment and Stock Purchase Plan (D.91434 dated March 18, 1980 in A.59441);

4. The issuance and sale of 47,601 shares of Common Stock, \$8-1/3 par value, issued under Edison's Employee Stock Ownership Plan on February 1, 1982 (D.91198 dated January 8, 1980 in A.59295);
5. The issuance of 3,933 shares of common stock due to conversion of 4,972 shares of Preference Stock, 5.20% Convertible Series (no dollar increase or decrease on the exchange);
6. The retirement of \$37,500,000 principal amount of First and Refunding Mortgage Bonds, Series H, due February 15, 1982 (D.54469 dated February 5, 1957 in A.38750); and
7. The issuance, sale, and refunding of Edison's First and Refunding Mortgage Bonds, Series SSP, sold on February 4, 1982 in the aggregate principal amount of \$176,800,000 from the original \$200,000,000 authorized (D.93319 dated July 22, 1981 in A.60652); Series SSP will be refunded in 1982 from the proceeds received from the proposed issue.

The Commission's Revenue Requirements Division has reviewed Edison's application and has concluded that the proposed financing is necessary; however, the Division reserves the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

Edison paid the fee required by PU Code Section 1904(b), in connection with the intermediate term debt which was issued in the pollution control financing authorized by D.93319 dated July 22, 1981 in A.60652. Therefore, no fee is required for this application.

Findings of Fact

1. Edison, a California corporation, operates under the jurisdiction of this Commission.

2. The proposed Installment Sale Agreement, requiring Edison to provide security for the purchasers of the City's Refunding Bonds, would not be adverse to the public interest.

3. Edison's proposed New Mexico Indebtedness would be for a proper purpose.

4. The proposed sales and delivery of the acquired or constructed facilities would not be adverse to the public interest.

5. The money, property, or labor to be procured or paid for by the proposed debt securities is reasonably required for the purpose specified in the application.

6. The sale of the proposed indebtedness should not be required to be through competitive bidding.

7. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

The proposed security issue is for a lawful purpose and the money, property, or labor to be obtained by it is required for this purpose. Proceeds from the security issue may not be charged to operating expenses or income.

The following order should be effective on the date of signature to enable Edison to proceed with the proposed financing expeditiously.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (Edison) may issue, sell, and deliver at any time or times after the effective date of this order and prior to January 15, 1985 up to \$200,000,000 aggregate principal amount of one or more series of its First and Refunding Mortgage Bonds, debentures, notes, and/or other evidences of indebtedness upon the terms and conditions as set forth in, or contemplated by, the application and the documents filed in connection with these proceedings or, in the alternative, guarantee unconditionally obligations of the City of Farmington, New Mexico (City) in respect of the issuance of its debt.

2. Edison may sell and deliver to the City the acquired or constructed facilities under the terms and conditions set forth in, or contemplated by, the application.

3. Edison may execute and deliver one or more Supplemental Indentures in substantially the form attached to the application as Exhibit E.

4. Edison shall apply the proceeds of the indebtedness authorized for the purpose specified in the application.

5. Edison shall file the reports required by General Order Series 24.

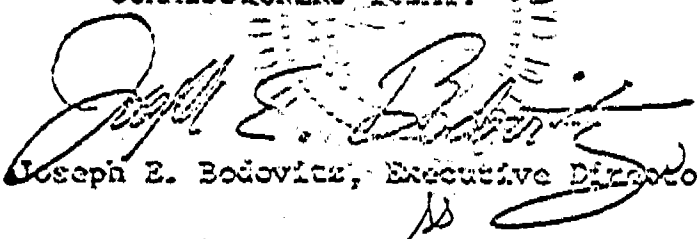
6. The applicable fee of \$106,000 set by PU Code Section 1904(b) having been paid in connection with D.93319 dated July 22, 1981 in A.60652, no additional fee is required for this refunding issue which will be used to refund Edison's First and Refunding Mortgage Bonds, Series SSP.

This order is effective today.

Dated     MAY 18 1982    , at San Francisco, California.

JOHN E. BRYSON  
President  
RICHARD D. GRAVELLE  
LEONARD M. GRIMES, JR.  
VICTOR CALVO  
PRISCILLA C. GREW  
Commissioners

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

  
Joseph E. Bodovick, Executive Director

ORIGINAL

Decision 82 05 072 MAY 18 1982

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